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Local Shops vs. Online Retailers: Competition or Synergy?

Abstract: Retailers in remote rural areas face competition from online retailers that can offer superior product availability and variety. This paper explores the issues stores in Scottish small island communities face due to the residents' increased opportunities for "virtual mobility", and highlights strategies for their economically sustainable operation. Eight semi-structured interviews were conducted with shop owners on seven islands in the council areas of Orkney, Argyll and Bute, and Highland. The research has found that while online retailers are frequently used by the islanders, the small shops on the islands are vital for the communities, particularly for elderly residents. Their close connection with the community enables shop owners to flexibly respond to demand, but elevated transport cost and lack of economies of scale lead to high prices. Shops stay competitive by offering additional services to the community, e.g. they frequently incorporate the post office. Local produce is available in many shops, but is not distributed beyond the island community, as none of the retailers sell via the internet. There is very little evidence of cooperation with other businesses, despite an acknowledged opportunity to create valuable economies of scale to cut transport cost. Any attempt to tackle this issue will have to focus primarily on the creation of trust amongst local businesses.

Words: 2,722

1. Introduction

For rural residents, the convenience and potential savings associated with online shopping are particularly high (Walzer and Colavito 2005). As retail services are increasingly concentrated on large companies and in locations with a large market, rural areas have less physical access to shops (Powe and Hart 2009). However, 75% of the population in remote rural areas in Scotland now have internet access at home (National Statistics 2012). This enables opportunities for virtual mobility, which is defined as “the process of accessing activities that traditionally require physical mobility, but which can now be undertaken without recourse to physical travel by the individual undertaking the activity” (Kenyon et al. 2002, p.213). Particularly in rural areas, increased mobility of any kind can have a significant effect (Ward and Brown 2009). Previous research on virtual mobility has mainly focussed on social inclusion where physical mobility is limited (Kenyon et al. 2002, Kenyon et al. 2003, Urry 2002) although more recent contributions have explored the wider relationship between mobile technologies, space and place (e.g. Line et al. 2011, Sheller and Urry 2006). However, it also has effects on the economic situation of businesses in remote rural areas as will be explored here.

Rural shops face an increased competition from online retailers. However, small local shops, apart from providing shopping opportunities in rural areas, also create jobs, serve as hubs for local business activity and are centres for social interactions (Clarke and Banga 2010, Smith and Sparks 2000). The competition small independent shops face from large, multiple retailers, has been reported in the *Scottish Geographical Journal* previously (Findlay and Sparks 2012, Smith and Sparks 2000). However, research regarding small independent shops on competition with online retailers is scarce. This paper reports a qualitative study of local shops located in Scottish islands with less than 200 inhabitants. The aim is to highlight strategies that are being employed or could be employed, to ensure the survival of these shops in the face of competition from large online sellers.

2. Shops in Remote Rural Areas

Shop density for remote Scottish islands seems very high, far exceeding the Scottish average of 5.1 shops per 1000 inhabitants due to the small catchment areas and very limited mobility of residents (Byrom et al. 2003). These shops are vital for the social and economic well-being of communities (Clarke and Banga 2010). However, independent retailers are increasingly vulnerable to competition, particularly where catchment areas are small (Bennison et al. 2010).

The main role of island shops is to supply products and services to local populations. According to Smith and Sparks (2000), the problems they face are high operating costs, supply availability, economic/social changes in the local area and strong competition. Small shops face higher stock and

transport costs, a lack of economies of scale when ordering and their ageing shop infrastructure also adds cost (Paddison and Calderwood 2007, Smith and Sparks 2000). As transport to remote rural areas has improved, permitting access to alternative ways of shopping, rural residents have become more demanding and dissatisfied with the limited product range small shops can offer (Clarke and Banga 2010, Powe and Hart 2009). While remote rural areas have seen a 6.2% growth in population between 2001 and 2010, they also have a high average age (The Scottish Government 2013). This creates a changing socio-economic environment for shops. Finally, small shops compete with out-of-town shopping at larger retail destinations, as well as online shopping (Paddison and Calderwood 2007). The latter has been enabled by an increase in virtual mobility (Kenyon et al. 2003).

A study of retail businesses in the Western Isles of Scotland has shown that even in such remote locations, businesses have various strategic options (Byrom et al. 2003). Three main strategic directions emerge from the literature (Byrom et al. 2003, Clarke and Banga 2010, Paddison and Calderwood 2007, Smith and Sparks 2000):

- Cost minimisation: reduced opening hours, cooperation to achieve economies of scale
- Market-led expansion: provision of mobile shops, mail order or e-tailing options
- Product-led expansion: diversified product range, additional services

Small shops have also some significant competitive advantages: they have a high familiarity with the local market (Byrom et al. 2003), can sell in smaller and more flexible quantities (Kyle and Blair 2007) and can position themselves in the market more flexibly (Clarke and Banga 2010).

3. Online Retailing

Online retailers are particularly attractive for customers in remote rural locations because they offer access to a wide variety of products, often at lower prices, without necessitating travel (Walzer and Colavito 2005). Opportunities for virtual mobility can thus supplement missing physical transport links (Kenyon et al. 2002). Access to broadband internet has become vital to counteract physical, as well as social isolation in rural areas, and there is concern about already disadvantaged groups falling further behind because of a lack of broadband access (Townsend et al. 2013). Three quarters of the remote rural population in Scotland now have access to the internet at home, which has been an area of concern for the Scottish Government (National Statistics 2012).

Apart from its appeal to consumers, the potential of digital technologies has also been suggested as a major driver of rural business development, as it enables value creation independent of physical location (Amit and Zott 2001, Galloway et al. 2004, Townsend et al. 2013). Rural businesses can access a broader market, as well as a wider selection of suppliers online (Bharadwaj and Soni 2007). Online retailing could therefore be an opportunity for small shops, not just a threat. However,

broadband access alone has not been shown to have a positive impact on rural business growth, as companies are reluctant to utilise the full potential of the internet, which has been related to a general lack of enterprise in many rural areas (Galloway 2007, Lawson et al. 2003).

4. The Study

According to the 2011 census, the 93 inhabited islands in Scotland have a total population of 103,702 which equals approximately 2% of the population of Scotland (National Records of Scotland 2013a). Compared to previous census figures, several of the islands face depopulation and the population on most islands is ageing faster than in the rest of Scotland (National Records of Scotland 2013b). The seven islands in the sample for this study have fewer than 200 inhabitants and are classified as remote rural areas because they are outwith a 30-minute driving radius of the nearest settlement with a population of 10,000 or more (The Scottish Government 2013).

This study focuses on very small islands to capture the extremes of rurality, highlighting issues that other rural areas might face in the future. Except for island C, the median age of the population in each of the islands is higher than the 41 years, which is the Scottish average (National Records of Scotland 2013b). There is a primary school on each island, although student numbers are generally low with between three and 30 children currently enrolled. At least one grocery shop exists on each of the islands, but there were no supermarkets and no mobile shops, both retail outlets that are evident in other island communities. This study is therefore limited to small fixed site shops.

Broadband internet access is available, but the speed varies (USwitch 2013). Technological challenges can lead to slow connection speeds in remote rural areas (Galloway 2007). At least 2 Mbps are currently seen as adequate broadband speed (Townsend et al. 2013). At lower speeds, usefulness for activities such as online shopping might be limited. However, in the sample of this study, only one island did not reach this threshold (USwitch 2013) (Table 1). All of the islands can be reached by ferry. In addition, three of them have scheduled flight connections.

Island	Population (2011) <i>(National Records of Scotland 2013a)</i>	Median Age (2011) <i>(National Records of Scotland 2013b)</i>	Maximum Internet Speed (2013) <i>(USwitch 2013)</i>	Number of interviews with shop owners
A	101-200	40-49	7.5 Mbps	2
B	101-200	50-59	7.5 Mbps	1
C	101-200	40-49	1 Mbps	1
D	101-200	50-59	5 Mbps	1
E	101-200	50-59	7.5 Mbps	1
F	20-100	40-49	5 Mbps	1
G	20-100	40-49	7.5 Mbps	1

Table 1: Description of the Sample

Based on the preceding literature review, the following research questions have been developed:

RQ1: How do shop owners perceive competition from online retailers due to increased virtual mobility of the residents?

RQ2: Which strategic responses do shop owners employ?

These research questions tie into current research (such as that at the dot.rural Hub¹) exploring how the user-led application of digital technology can facilitate economic, social and environmental sustainability in remote rural areas.

Ten shop owners on nine different islands were contacted for this study. This resulted in eight face-to-face interviews. A semi-structured approach was chosen to allow for flexibility in capturing rich data on the diverse challenges shop owners face, and to enable deep insights into their strategic decisions (Saunders et al. 2012, Wengraf 2001). To enhance understanding of the data, coding took place continuously (Bryman 2012). By making it suitable for conceptual analysis, coding allows reflection on the wider context of the gathered data (Miles and Huberman 1994).

5. Findings

5.1 RQ1: How do shop owners perceive competition from online retailers due to increased virtual mobility of the residents?

Online shopping is very prominent on all of the islands. Large online retailers such as Amazon.co.uk are most popular, although currently mainly used for infrequent purchases. Several interviewees remarked that residents have only started acquiring food items online very recently. None of the major supermarket chains deliver to any of the islands in the sample, but a private haulier provides

¹ <http://www.dotrural.ac.uk>

pick-up and delivery of TESCO orders on islands A and B. Shop owners on F and G noted that the anticipated opening of a new supermarket in a nearby town on the mainland might lead to online grocery shopping being available on their islands and described this as a concern for their shops.

Interviewees noted the vital function their shops have in the communities they serve, particularly for elderly inhabitants. The shop keeper on D explained:

'The young families do most of their shopping on the mainland or online, but the old people rely on me.... It's easier to shop here and they also come for a bit of chat and banter.'

While products can be procured elsewhere, this social element was seen to be irreplaceable. The majority of interviewees admitted that their prices are slightly higher than on the mainland due to smaller order sizes and higher transport cost. However, they justified this by referring to the wider social benefits residents receive when supporting their local store. The shop owner on E stressed the close links with other island businesses and groups, from selling produce grown by the primary school to buying from local craftsmen.

At present, online retailers are mainly seen as a replacement for mail order companies that have been important for islanders for decades. However, local shop owners are concerned that they may develop into more serious competitors for their businesses in the future.

5.2 RQ2: Which strategic responses do shop owners employ?

Cost minimisation strategies have been observed in a large part of the sample. On F and G, the islands with the smallest population, the shop has very limited opening hours. Several shop keepers do not rely solely on income from the shop. Only one shop (on island C) is a part of a retail franchise. There is no other evidence of business cooperation, even though it is widely acknowledged that pooling orders would lead to cost savings. The shop owner on G pools the wholesale orders for the entire island to achieve economies of scale. Islanders are eager to support this system to keep the shop economically viable. Interviewees report that they are reluctant to risk the peace of their small communities in case a cooperation agreement goes wrong, and therefore refrain from cooperating with other local businesses.

Market-led expansion is rare. While all of the shop owners use the internet for private purchases and many of them report conducting business communication online, none of them sell anything online. The sentiment is that there is no market online for their product offering, the entry barriers are too high, and competition from established online retailers is too strong. Two interviewees expressed an interest in participating in retail platforms for local or regional products in the future. There is also no shop taking phone-based orders or offering home delivery. On island D, a

community run 'granny bus' provides transport to the shop once a week for those who are unable to get there on their own.

Product-led expansion strategies are most common, especially by providing added services. For instance five shops in the sample incorporate the island post office. The store on island D also provides a computer with internet connection for locals and visitors. Three shops have a petrol pump. Pooling wholesale orders is not just a cost-saving measure for the shop, but also a valuable service to the inhabitants of island G. Local knowledge enables shopkeepers to respond to specific demands and most are willing to adapt, as this example from D shows:

'Tell me what you want and I can usually get it. I'll get a few and if people like it, I will order again. That's why you see so many small packages here. People live alone or as a couple, they don't want family packs, so I don't sell them anymore.'

Responding to customers' demand can not only ensure survival in a small market, but it can also lead to the creation of new businesses, as one of the second grocery shops on island A illustrates. It provides organic produce, special diet ingredients and a delicatessen. The aim is to not take custom away from the established shop, but to enhance the shopping opportunities on the island. The shopkeeper describes:

'We can be a bit more adventurous here. We carry on from where The Island Stores has no space to go. Our products have never been available on [A] before. It's exciting for such a small place and business is very good.'

After demonstrating some of the most important evidence collected from the eight face-to-face semi-structured interviews conducted the final section of the paper is follows below.

6. Discussion and Conclusions

Online retailers are not currently perceived as direct competitors by the owners of shops on small Scottish islands. This is primarily because possibilities for food shopping online have so far been limited. Online retailers are seen rather as a replacement for mail order companies that have always been a feature of shopping activities in the small islands under investigation. Their primary advantages are added variety and competitive prices. In the future, online competition from supermarket chains is likely to become more relevant as a higher incidence of virtual mobility overcomes some of the effects of limited physical transport links. Island stores are an essential social element of their communities and it is therefore crucial for the owners to be aware of the challenges lying ahead, so they are adequately equipped with strategies to survive in a changing marketplace. While opportunities for virtual mobility has a significant impact on the opportunities available to islanders, remote shopping cannot be a substitute for all the functions of a local shop.

At present, the shops attempt to strengthen their position mainly by offering additional products and services to customers. Some cost-saving strategies are in place, but no cooperation with other businesses is evident, even though there is an acknowledged saving potential from pooling orders. There is also little evidence of market-led expansion. The internet is used for private purchases and some business communication, but not for commercial retail services. Online retailing may present business opportunities to local retailers to expand their market reach in the future. Digital technologies and skills are crucial for ensuring survival and prosperity of rural enterprises facing increased competition from large grocery retailers with online presence.

This research explores the effects of increased virtual mobility on local shops in small island communities. It is clear that a balance between online and local shopping activities would be desirable for both shop-keepers and consumers due to the variety of functions beyond the purely economic that the local shop fulfils. This research encourages further inter-business cooperation to strengthen the competitive position of small rural shops, and thus ensure their viability. The creation of trust between local businesses would be essential for this.

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